

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 NSAE-00
NSCE-00 SSO-00 USIE-00 INRE-00 SP-02 AID-05 EB-08
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 AGRE-00
COME-00 FRB-03 INR-07 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 ABF-01 FS-01 IGA-02 PA-01 PRS-01
/091 W

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O P 260901Z JAN 78
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC IMMEDIATE 7241
INFO AMEMBASSY ATHENS PRIORITY
AMEMBASSY CAIRO PRIORITY
AMEMBASSY DOHA IMMEDIATE
AMEMBASSY JIDDA PRIORITY
AMEMBASSY KUWAIT PRIORITY
AMEMBASSY LONDON PRIORITY
AMEMBASSY MANAMA IMMEDIATE
AMEMBASSY MUSCAT
AMEMBASSY PARIS PRIORITY
AMEMBASSY TEHRAN PRIORITY
USINT BAGHDAD PRIORITY
AMCONSUL DHAHRAN PRIORITY

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C O R R E C T E D C O P Y (ADDIN EO, TAGS, AND SUBJECT LINES)

EO 11652: NA
TAGS: EFIN, TC, BA, QA
SUBJ: DISCONTINUANCE OF FOREIGN EXCHANGE DEALING IN UAH,
BAHRAIN AND QATAR CURRENCIES

REFS: A. MANAMA 211 (NOTAL); B. DOHA 117 (NOTAL)
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1. WITH DECISION TAKEN BY BAHRAINI MONETARY AUTHORITIES
TO STOP ALL FOREIGN EXCHANGE DEALINGS AT 1100 HOURS BAHRAIN
TIME JANUARY 25, UAE CURRENCY BOARD APPLIED SIMILAR BAN
SAME DAY AT 1400 HOURS LOCAL (0500EST) CLOSE OF BANKING
HOURS TO PREVENT SPECULATION. BOARD'S ACTION WAS
ANNOUNCED IN ITS CIRCULAR NO. 413 WHICH STATED ONLY THAT

BAN WOULD CONTINUE "UNTIL THE MARKET STABILIZED." LOCAL BANKERS REPORT SIMILAR BAN APPLIED BY QATAR MONETARY AUTHORITIES ONE HOUR BEFORE UAE TOOK ACTION.

2. NO PUBLIC STATEMENT HAS YET BEEN ISSUED BY KQALRENCY NNDGARD AND NONE IS EXPECTED BEFORE SATURDAY, JANUARY 28 MEANWHILE, WE HAVE BEEN UNABLE TO OBTAIN ANY CONFIRMATION LOCALLY THAT GULF MONETARY AUTHORITIES WERE MEETING TO CONSIDER NEW RATES AGAINST DOLLAR ALTHOUGH WE CANNOT DISCOUNT THAT REPORT (REF A, PARA 2) MAY HAVE SOME VALIDITY. BANKING SOURCES HERE BELIEVE PRESSURE CAUSED BY RECENT SMALL REVALUATION OF SAUDI RIYAL WHICH PUT GULF CURRENCIES OUT OF LINE WITH RIYAL. OTHER FACTOR IS PROBLEM WHICH RELATES IN DOLLAR VS A VS JAPANESE YEN AND GERMAN MARK POSES FOR SEVERAL OF THESE COUNTRIES. UAE DIRHAM AND, WE BELIEVE, BAHRAIN DINAR HAVE BEEN LINKED TO US DOLLAR AND POSSIBILITY EXISTS THAT MONETARY AUTHORITIES, IN ORDER TO CUT DOWN COST OF IMPORTS FROM JAPAN AND GERMANY WHICH ARE MAJOR SUPPLIERS OF GOODS AND SERVICES TO THIS AREA, MAY NOW DECIDE TO CUT LINK WITH THE DOLLAR AND ADOPT SYSTEM SIMILAR TO THAT IN KUWAIT.

3. LOCAL BANKING SOURCES DO NOT EXPECT CHANGE IN VALUE OF DIRHAM WOULD BE IN RANGE OF 10 TO 12 PERCENT (REF A, PARA 3). RATHER, THEY SEE SMALLER INCREASE LIKELY, LIMITED OFFICIAL USE

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PROBABLY NO MORE THAN TWO PERCENT. AT TIME OF THIS WRITING, DOLLAR BUYING (UNDER SWAP ARRANGEMENT) AT RATE OF DIRHAMS 3.8575 WHICH IS MINIMUM RATE SET FOR DOLLAR-DIRHAM EXCHANGE UNDER IMF SWING BALANCE.

4. ANOTHER POSSIBLE REASON FOR THIS RECENT DEVELOPMENT MAY BE REARRANGEMENT IN VALUE BETWEEN BAHRAIN, QATAR, AND UAE CURRENCIES. AS REF A MENTIONS, BANKING CIRCLES HAVE IN PAST FELT UAE DIRHAM WAS OVERPRICED IN RELATION TO TWO OTHER GULF CURRENCIES. WHILE ALIGNMENT OF THREE CURRENCIES WAS ACTIVE TOPIC OF DISCUSSION IN 1976 AND UP TO THE "DIRHAM CRISIS" OF EARLY 1980S, IDEA OF MAINTAINING SUCH ALIGNMENT AND CREATING A "GULF DINAR" HAS VIRTUALLY DISAPPEARED IN RECENT MONTHS. IT MAY BE THAT CHANGE IN PARITY AMONG THE THREE CURRENCIES WILL IN FACT OCCUR.

5. UAE PRESS OF JANUARY 26 CONTAINS NOT A WORD ABOUT UAE ACTION SUSPENDING TRADING IN FOREIGN CURRENCIES. HOWEVER, FEATURE ARTICLE ON FRONT PAGE OF GOVERNMENT-OWNED AL-ITTIDAD CITES UNIDENTIFIED SOURCES IN UAE CURRENCY BOARD AS RECONFIRMING THAT IT IS UAE POLICY TO MAINTAIN

FREE TRANSACTIONS AMONG ALL CURRENCIES WITHOUT RESTRICTIONS
OR CONTROLS. ALSO CARRIES SUMMARY OF TV INTERVIEW SEEN
JANUARY 25 IN WHICH UAE CURRENCY BOARD DIRECTOR GENERAL
ABD AL-MALIK AL-HAMAR SAID THAT CONTRARY TO RECENT
PRESS REPORTS, UAE CURRENCY BOOARD CONTINUES TO PERMIT
BAHRAIN AND QATAR CURRENCY TO BE USED BY NATIONALS AND
RESIDENTS OF THOSE COUNTIRES FOR RETAIL TRANSACTIONS
IN UAE AT OFFICIAL RATES OF UAE DIRHAM ONE EQUALLING
BAHRAIN DINAR 0.1 AND QATAR RIYAL 1.0 UP TO LIMIT
OF UAE DIRHAMS 5,000 PER INDIVIDUAL WITHOUT
BEING CHARGED ANY FEE OR DISCOUNT DICKMAN

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Message Attributes

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